

Message Text

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TO AMEMBASSY SEOUL

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E.O. 11652: GDS

TAGS: EFIN, EINV, ETRD, KS

SUBJECT: OPIC AND KOREAN DEVELOPMENT

REF; SEOUL 8542

1. APPRECIATE AND SHARE CONCERNS RAISED BY REFTEL. DEPARTMENT REALIZES OPIC INSURANCE IMPORTANT TO CONTINUED U.S. EQUITY INVESTMENT IN KOREA. THIS IS ONE REASON WHY WE HAVE URGED OPIC OVER PAST MONTHS TO DEVELOP SOME NEW MEANS, GIVEN LIMITS OF ITS CONGRESSIONAL MANDATE, TO CONTINUE TO PROVIDE INSURANCE TO COUNTRIES OF HIGH EXPOSURE SUCH AS KOREA.

2. IN PRESENT SITUATION IT WOULD NOT BE POSSIBLE TO GIVE ROKG THE REASSURANCE YOU SUGGEST. TO DO SO WOULD MEAN DEVOTING DISPROPORTIONATE SHARE OF OPIC EXPOSURE TO ROK AT COST OF RISK MANAGEMENT PRINCIPLE FUNDAMENTAL TO OPIC'S OPERATION AS INSURANCE COMPANY AND NECESSARY IF PRIVATE COMPANIES ARE TO PARTICIPATE. IT ALSO MIGHT NECESSITATE AMEND-
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MENT OF OPIC STATUTE WHICH NOW REQUIRES INVOLVEMENT OF PRI-

VATE INSURERS.

3. AS EMBASSY AWARE, CONGRESSIONAL REVIEW OF OPIC IS SLATED FOR 1977, IN PART TO EXAMINE PROGRESS OF CONGRESSION-

ALLY MANDATED EFFORTS TO INVOLVE PRIVATE INSURERS. IF CONGRESS DECIDES THAT OPIC SHOULD CONTINUE ON PRESENT COURSE, BY THE END OF 1980 ALL NEW POLITICAL RISK INSURANCE WILL BE ISSUED BY PRIVATE INDUSTRY PARTICIPANTS IN PROGRAM IN LINE WITH THEIR ASSESSMENT OF PROFITABILITY AND RISK, WITH OPIC REDUCED TO ROLE OF REINSURER AGAINST CATASTROPHIC LOSS (DEFINED AT PRESENT AS LOSS GREATER THAN 40 MILLION DOLLARS PER COUNTRY PER YEAR.)

4. TO PROVIDE FOR MAJOR EXPANSION OF OPIC EXPOSURE IN KOREA ON THE ORDER OF SEVERAL HUNDRED MILLION DOLLARS ANNUALLY WOULD BE A FUNDAMENTAL DEPARTURE FROM THIS COURSE AND FROM THE PRINCIPLES OF RISK MANAGEMENT AND OBJECTIVE OF SELF-FINANCING THAT HAVE BEEN BASIC TO OPIC SINCE ITS CREATION. ALTHOUGH A MAJOR EXPANSION IN KOREA MIGHT BE POSSIBLE UNDER THE LETTER OF THE OPIC STATUTE (IF OPIC ISSUED THE INSURANCE ON ITS OWN ACCOUNT, NOT ON BEHALF OF THE OIIG), THERE IS NO REALISTIC POSSIBILITY OF SUCH A BASIC POLICY SHIFT BY OPIC WHICH IS IN SUCH STARK CONTRAST TO ITS "PRIVATIZATION" MANDATE. OPIC IS STRIVING TO WORK OUT PRACTICAL SOLUTION FOR HIGH EXPOSURE COUNTRIES CONSISTENT WITH PRINCIPLES OF RISK MANAGEMENT.

5. WE HAVE KEPT OPIC AWARE OF THE IMPORTANCE WE AND ROKG ATTACH TO FINDING A SOLUTION TO THE COUNTRY CONCENTRATION PROBLEM AND HAVE URGED OPIC TO WORK OUT MUTUALLY ACCEPTABLE ARRANGEMENT WITH INVESTORS. WHETHER THE RISK SHARING EFFORT SUCCEEDS OR NOT, WE WILL CONTINUE TO EXAMINE WITH OPIC OTHER OPTIONS, INCLUDING, IF NECESSARY, THOSE REQUIRING LEGISLATIVE ACTION.

6. MORE IMPORTANTLY, PROBLEM IN REGARD TO OPIC INSURANCE IS NOT ISOLATED ONE: EXIM BANK EXPOSURE IS HIGH AND BANK STAFF BEGINNING TO EXPRESS CONCERN OVER LOAN VOLUME TO KOREA; CCC EXPOSURE ALSO HIGH; WE ARE UNSURE OF ULTIMATE

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LEVEL OF PL-480 ASSISTANCE; AND, AS YOU AWARE, MANY PRIVATE U.S. BANKS NOW RELUCTANT TO INCREASE SIGNIFICANTLY CREDIT LINES TO KOREA.

7. U.S. RESOURCES AVAILABLE TO ROKG ARE NOT UNLIMITED AND IT CLEAR WE ARE BEGINNING TO APPROACH LIMITS. THEREFORE, BELIEVE BEST SERVICE YOU COULD RENDER NAM AND ROKG IS REALISTIC APPRAISAL OF OPIC SITUATION AS PART OF

CONSTRAINTS UNDER WHICH WE, AND ROKG, MUST OPERATE.
AS FAR AS OPIC IS CONCERNED, YOU MIGHT WISH TO EMPHASIZE
TO ROK THAT RISK SHARING SCHEME IS DESIGNED ASSURE CON-
TINUED INSURANCE COVERAGE FOR KOREA.

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8. MORE GENERALLY, WE WILL OF COURSE CONTINUE TO MAKE
EVERY EFFORT TO ASSIST ROKG WITH OFFICIAL AGENCIES AND
NON-GOVERNMENTAL ENTITIES, BUT WE ARE NOT IN POSITION
TO FURNISH ASSURANCES THAT "LARGE PART" OF CAPITAL
REQUIREMENTS ESTIMATED BY IBRD AND ROKG WILL BE SUP-
PLIED (OR INSURED) FROM U.S. SOURCES.

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